



State of South Carolina

Office of the Governor

MARK SANFORD
GOVERNOR

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June 27, 2007

The Honorable André Bauer
President of the Senate
State House, 1st Floor, East Wing
Columbia, South Carolina 29202

Dear Mr. President and Members of the Senate:

I am hereby returning S. 656, R-172, with line item vetoes detailed below.

First, I would like to compliment and thank the House and the Senate for their work in providing the largest net tax cut in the history of the state. Over the past four years, as revenues have continued to climb, we have maintained that these large surpluses should be returned to where they came, the taxpayers.

It is particularly worth noting that this tax relief is almost ten times what the Senate was contemplating just a few weeks ago and that through our efforts and the efforts of like-minded conservatives in the House and Senate, we succeeded in getting this significant tax cut.

We continue to believe that cutting income taxes through the top marginal rate is a better way to stimulate the economy, and in this regard we consider this a down payment on a larger effort to reform the income tax code. Today, the tax code is littered with exemptions and loopholes and multiple brackets that serve as a drag on investment and the economy. When I first ran for office, I proposed the simple idea of trading off a tax on consumption in exchange for eliminating the income tax altogether. Since that time, the landscape has certainly changed, and we are willing to look at a more measured approach. However, we do believe that we could significantly simplify the current income tax code while providing tax relief.

In Section 8 of this legislation, the General Assembly appropriates dollars from the Contingency Reserve Fund into the hydrogen program. As a result, the legislation is an Appropriations Act and, therefore, subject to the line-item veto. As such, there are two specific provisions that I would like to highlight and strike.

First, I am vetoing Section 7 of this bill. This section creates an additional stipend up to \$3,300 for each Palmetto Fellow Scholarship and \$2,500 for each Life Scholarship for recipients who major in science or mathematics disciplines, computer science or informational technology, engineering, science education, math education, health care and related disciplines including medicine and dentistry.

While we believe encouraging students into high need subject areas such as math and science is an admirable goal, we believe that we should proceed cautiously on expanding the LIFE and HOPE Scholarships. Just this past fall, the Board of Economic Advisers had to revise downward their estimate of the Lottery projections from the November 2006 estimate by \$20 million. In addition, we are starting to see signs that the North Carolina Lottery, which has been in existence for just over a year, will have a negative impact on our revenues here in this state. Does it make any sense to expand the program as revenue appears to shrink?

I am also vetoing Section 8 of S. 656. This section appropriates \$5 million from the Contingency Reserve Fund to the South Carolina Research Authority for hydrogen grants.

I have detailed in my recent veto of S. 243 my feelings on moving forward and spending state tax dollars in hydrogen research. In as much as they are attached in this bill, let me quickly reiterate this administration's belief that before we increase our level of public investment in hydrogen research, there needs to be more evidence of a return to the taxpayer.

In that message, I laid out three very specific reasons for vetoing that legislation. First, we should not put all of our eggs in one basket; we should be looking at a variety of fossil fuel alternatives, not just hydrogen. Second, government should not be leading on technology, the private sector should. We are seeing investments, such as British Petroleum \$3.5 million investment on a single hydrogen plant in Beijing, China, and these companies are diversifying their investments on other energy sources, as well. Third, if there is going to be a public investment into hydrogen, then it should be used to leverage private investment. I would urge the General Assembly to reject this funding and develop a more conservative approach to financing these types of research.

For the reasons detailed above, I am compelled to veto the above line items in S. 656, R-172.

Sincerely,



Mark Sanford